

The
Coniagas
MINES, LIMITED



59th
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1965

The
Coniagas
MINES, LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1965

to be submitted to the
FIFTY-NINTH ANNUAL GENERAL MEETING
OF SHAREHOLDERS

at
TORONTO, ONTARIO

on
JUNE 10, 1966

HEAD OFFICE

Suite 903, 330 Bay Street, Toronto

MINE OFFICE

DESMARAISVILLE, P.Q.

Directors and Officers

M. J. BOYLEN, D.C.L., D.Sc., Chairman of the Board and Director, Toronto, Ontario

R. J. ISAACS, B.A.Sc., P.Eng., Vice-President and Director - Toronto, Ontario

C. S. KENNEDY, C.A., President and Director - - - Toronto, Ontario

MONTALIEU NESBITT, Q.C., Director - - - - - Woodstock, Ontario

D. G. ROSS, Director - - - - - Toronto, Ontario

D. W. GORDON, F.C.I.S., Secretary-Treasurer - - - - Toronto, Ontario

Auditors

TOUCHE, ROSS, BAILEY & SMART - - - - - Toronto, Ontario

Registrar and Transfer Agent

GUARANTY TRUST COMPANY OF CANADA - - - - - Toronto, Ontario

Letter to the Shareholders

The 59th Annual Report of your Company covering the year ended December 31st, 1965 as approved for presentation to you by your Board of Directors is submitted herewith, together with the Report of your Mine Manager, the Company's Consolidated Financial Statements for the year and the Report of your Auditors.

During November, shareholders were offered the right to subscribe for one additional share at 75¢ per share for each six shares held. The shares formerly held by your wholly-owned subsidiary, The Coniagas Reduction Company Limited, namely, 97,256 shares, were included in the offer, and with 329,034 from the Company's treasury, brought the issued and outstanding shares of the Company to a total of 2,984,034. This offering was underwritten by a private company owned by your Chairman of the Board, Mr. M. J. Boylen, and has provided the Company with some \$319,700. of additional working capital with which to press the search for economic minerals.

BALANCE SHEET

The major change in the Company's Balance Sheet from that of a year ago, results from the reorganization of the capital stock through the issue of Supplementary Letters Patent, as approved by the General Meeting of the Shareholders held May 25th, 1965. By the Supplementary Letters Patent, the then 3,000,000 authorized shares of a par value of \$2.50, were changed into 3,000,000 shares without par value, and the capital value of the issued shares was changed from \$2.50 each to \$1.00 each. This resulted in a credit to contributed surplus on a non-consolidated basis of \$3,982,500. In an earlier year the book value of the Company's original property at Cobalt, Ontario, after crediting the proceeds of its sale, had been charged against retained earnings. This capital write-off has now been transferred to the debit of the contributed surplus account, thus leaving that account with a balance of \$8,800., and restoring the write-off to the retained earnings account.

Reference to the assets side of the balance sheet will show that slow payment of the refundable oil taxes, continues to freeze substantial working capital. Some progress has been made in reducing the amount of stores and supplies.

At the year end, the market value of investments as shown by the following schedule was approximately \$1,000,000. in excess of the book value. This compares with an appreciation of some \$750,000. as of December 31st, 1964.

Units	Security	Value December 31, 1965	
		Book	Market
<u>Notes</u>			
250,000	Traders Finance Corporation Limited _____	\$ 250,000.	\$ 250,000.
<u>Bonds and Debentures</u>			
20,000	B.C. Electric 4½% bonds due Aug. 1, 1986 _____	20,000.	16,800.
5,000	C.P.R. 4% Coll Tr. bonds due Dec. 1, 1969 _____	5,000.	4,650.
7,500	T. Eaton Acceptance Corp. 4¾% debentures due March 1, 1974 _____	7,454.	6,825.
10,000	T. Eaton Realty Co., 5% bonds due March 15, 1973 _____	10,000.	9,250.
87,000	Industrial Acceptance Corp. 5½% debentures due July 2, 1973 _____	87,000.	81,780.

Letter to the Shareholders (Continued)

Units	Security Shares	Value December 31, 1965	
		Book	Market
16,283	Big Nama Creek Mines Limited (Free)	6,259.	8,141.
15,093	(Pooled and not valued)	—	—
600	Dome Mines Limited	4,327.	23,100.
265,000	First Maritime Mining Corporation Limited	388,400.	1,311,750.
500	Kerr Addison Mines Limited	950.	4,550.
2,000	Macassa Mines Limited	3,846.	5,400.
950,013	Quebec Sturgeon River Mines Limited	340,892.	399,005.
	Miscellaneous	1,670.	6,371.
	Accrued Income	3,216.	3,216.
		<u>\$ 1,129,014.</u>	<u>\$ 2,130,838.</u>

The Company's policy in writing off depreciation has been to use the rates allowed to your Company for mining duties by the Quebec Department of Mines. During the year this was confirmed on a straight line basis at 15% per annum, up to the end of 1963, and at 5% for the years 1964 and 1965. To conform to these rates, \$38,733. of depreciation previously written off was reversed. Provided our geologists' expectations are realized, namely, that ore discoveries will continue to be made to assure continuous operation of the mine, the rates allowed will be adequate.

The distribution of the per share value of your assets at December, 31st, including your security holdings at market values was as follows:

Net Current Assets	\$.20
Investments71
Advances to Quebec Sturgeon River Mines Limited09
Mining Properties13
Preproduction and Deferred Development43
Buildings, Machinery and Equipment at depreciated values36
TOTAL	<u>\$ 1.92</u>

The following is a statement of the source and application of funds during the year.

SOURCE

Metal and Miscellaneous Mine Revenue	\$ 1,577,398.
Interest and Dividends	10,261.
Sale of 329,034 Treasury Shares	246,775.
Sale by subsidiary, The Coniagas Reduction Company Limited, of 97,256 shares — net proceeds	72,869.
	<u>\$ 1,907,303.</u>

APPLICATION

Mine Operating Cost	\$ 1,567,598.
Mine Taxes	3,989.
Administration	28,333.
Prospecting Expenses	42,466.
Increase in Investments and Advances	84,715.
Capital Expenditures	31,714.
	<u>\$ 1,758,815.</u>
Increase in Net Current Assets	<u>\$ 148,488.</u>

Letter to the Shareholders (Continued)

PROFIT AND LOSS ACCOUNT

In 1965 operating costs, including substantial underground and surface development expenditures, were closely in balance with production revenues. The Company has a large property in which the chances of locating profitable ore bodies are considered excellent, thus warranting the continuance of exploration until such ore bodies are located, so long as it can be paid for out of the cash flow being generated by the mine.

Below is given a comparison of the 1965 and 1964 production statistics. It will be noted that the grade of both types of concentrates was lower in 1965 than in 1964, due to the ore now being milled carrying a larger percentage of iron than previously. It has not been found possible to produce the former grade of concentrates without at the same time causing increased quantities of the economic metals to be discarded in the tailings. The policy followed by our mill staff is to maintain the concentrate grades at the point which will produce the greatest return to the Company. The drop in values realized from lead concentrates was largely due to lower base metal content and prices and a downward adjustment of the value of the opening lead concentrate inventory. The lower smelting and refining charges resulted from the re-negotiation of our sales contracts. However, in the case of the lead concentrates, this is offset by a reduction in the percentage of the silver payment.

	Zinc Concentrates		Lead Concentrates	
	1965	1964	1965	1964
Production	16,066 tons	15,447 tons	1,740 tons	1,952 tons
Metal Content — Zinc	52.75%	56.20%	15.37%	20.24%
Lead	—	—	29.75%	31.13%
Silver	2.74 oz.	3.97 oz.	139.83 oz.	139.46 oz.
Gold01 oz.	.01 oz.	4.60 oz.	3.27 oz.
Value of Contained Metal per unit of production	\$168.94	\$168.55	\$337.15	\$399.55
Metal not paid for	28.30	28.29	41.97	42.67
Smelting and Refining (Including ocean freight on lead concentrates)	45.22	55.05	41.87	53.95
Freight	17.14	16.66	7.85	5.13
Duty	6.82	7.19	—	—
Net mine Return	71.46	61.36	245.46	297.80

QUEBEC STURGEON RIVER MINES LIMITED

In the year under review, this Company carried out an induced polarization geophysical survey over its Bachelor Lake Property and followed it up with a program of diamond drilling. This work disclosed interesting formations similar to those in which the ore bodies of your Company are found. The program had to be deferred due to the advent of severe winter weather, but we are advised that further work is warranted. All of the Company's properties are being maintained in good standing, and since the first of the year the claims formerly held at Gull Pond, Newfoundland, have been re-acquired by staking.

OUTSIDE EXPLORATION

Further work was carried out on the East Group at Wilson Lake in Northern Quebec during the early part of the year as reported in our Letter to the Shareholders last year. As advised then, it has been recommended that the claims be allowed to lapse, but the East Group, the more important looking of the two, is being retained for as long as the recorded assessment work will allow.

The work on the optioned property in Currie Township adjoining the Rose Lake Gold Mines on the west, was completed without the finding of economic mineralization, and the option was allowed to lapse.

In the latter part of the year, considerable interest was generated in the northern part of the Red Lake Camp in Ontario, with a large number of claims being staked for possible base metal occurrences. Your company has

Letter to the Shareholders (Continued)

for some years held 37 claims in three groups in the heart of the area of current interest. However, most of these claims are under the waters of Red Lake. During the past winter, both electromagnetic and magnetometer surveys were carried out and a number of interesting anomalies discovered. A program of diamond drilling was commenced, but due to failing ice this work could not be completed. The work completed found considerable mineralization, but nothing of economic value. However, important looking anomalies remain to be investigated when ice conditions will permit.

Since the end of the year, the Company acquired by staking, a group of claims in the Bathurst, Newcastle area of New Brunswick, on a favourable belt indicated by an airborne geophysical survey. Diamond drilling is now in progress on this property.

OUTLOOK

The demand for zinc does not appear quite as strong as it was a year ago. The European producers' price has been reduced from £110 per long ton to £102. However, the American market, where the bulk of your zinc is sold, has held at the 14½ cents per lb., East St. Louis price, and it is expected to be maintained for the foreseeable future.

Lately, the south-west portion of the mine has been giving promise of larger, more regular stopes, though of lower grade, but probably more profitable, as being more cheaply mineable. The north-east section of the mine seems to be developing smaller but much higher grade stopes, which it is planned to use as sweeteners in the mill feed.

The operation is faced with increasing costs from advancing labour and material charges and sales taxes. Your management is endeavouring to offset these increases by raising the milling rate, improving the methods of extraction and exercising every economy. We also are trying to obtain Hydro Electric power for the district which, if furnished, will effect a substantial lowering of costs. At present we not only have to operate with high cost diesel power but are penalized with a 2¢ per gallon withholding of refund of tax on diesel oil used to generate electric power, and 22¢ per gallon on oil used to compress air. Mines served with Hydro are not taxed on their power consumption. This discrimination against an isolated mine has been brought to the attention of the Provincial Minister of Revenue, but no corrective legislation has been introduced.

We acknowledge with thanks the loyalty and dedication to their tasks by the staff and employees.

Respectfully submitted,

M. J. BOYLEN, Chairman of the Board.

C. S. KENNEDY, President.

Toronto, Ontario,
May 20, 1966.

THE CONIAGAS

and its wholly-
THE CONIAGAS REDUC

CONSOLIDATED BALANCE SHEET

ASSETS

1964
Comparative
Figures

Current Assets

Cash	\$ 280,280	\$ 65,791
Metal settlements outstanding at estimated value	100,676	82,718
Refundable diesel oil taxes	129,748	115,749
Other accounts receivable	18,679	15,397
Inventory of lead concentrate at estimated sale value	107,231	191,685
Mining stores and supplies, at cost	141,186	177,207
Prepaid expenses	4,087	2,686
	<u>781,887</u>	<u>651,233</u>

Investments

Short-term commercial notes receivable plus accrued interest	\$ 250,329	177,828
Corporation bonds at cost plus accrued interest (quoted market value \$122,102)	132,251	135,138
Mining stocks at cost less depletion written off (quoted market value \$1,758,503)	<u>746,434</u>	<u>747,030</u>
	1,129,014	1,059,996
Advance to Quebec Sturgeon River Mines Limited	291,778	<u>276,081</u>

Capital Assets

Mining properties (Note 1)	387,443	387,444
Preproduction and deferred development (Note 2)	1,265,740	1,265,740
Buildings, machinery and equipment less accumulated depreciation of \$724,293 (Note 3)	<u>1,076,439</u>	<u>1,119,555</u>
	<u>\$4,932,301</u>	<u>\$4,760,049</u>

AUDITOR

(Under the Corpora

The Shareholders,
The Coniagas Mines, Limited.

We have examined the consolidated balance sheet of The Coniagas Mines, Limited and its statement of profit and loss, retained earnings, and contributed surplus for the year ended on that date and other supporting evidence as we considered necessary in the circumstances.

No provision has been made for amortization of preproduction and deferred development expenses.

Subject to the foregoing, in our opinion the accompanying consolidated balance sheet and related statement of profit and loss, retained earnings, and contributed surplus as at December 31, 1966, are in accordance with the accounting principles applied (except for the change referred to in Note 3) on a basis consistent with the practice of the company and its subsidiary, The Coniagas Reduction Company Limited as at December 31, 1966.

Toronto, Ontario,
March 31, 1966.

MINES, LIMITED

ed subsidiary

COMPANY LIMITED

AS AT DECEMBER 31, 1965

LIABILITIES

1964
Comparative
Figures

Current Liabilities

Accounts payable \$ 199,537

\$ 217,370

SHAREHOLDERS' EQUITY

Capital (Note 4)

Authorized

3,000,000 shares of no par value

Issued and fully paid

2,984,034 shares (including 329,034 shares issued during the year for
cash at 75¢ each) 2,901,775

6,394,360

Contributed surplus 8,800

Retained earnings (deficit) 1,822,189

(1,851,681)

4,732,764

4,542,679

On behalf of the Board:

M. J. BOYLEN, Director.

C. S. KENNEDY, Director.

\$4,932,301

\$4,760,049

PORT

Act — Ontario)

ed subsidiary, The Coniagas Reduction Company Limited as at December 31, 1965 and the related
ur examination included a general review of the accounting procedures and such tests of accounting

atement of profit and loss, retained earnings and contributed surplus present fairly the financial
and the results of their operations for the year ended on that date, in accordance with generally
th that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

THE CONIAGAS MINES, LIMITED

and its wholly-owned subsidiary

THE CONIAGAS REDUCTION COMPANY LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1965

		1964 Comparative Figures
Deficit January 1	\$1,851,681	\$1,661,409
Add: Net loss for the year	151,493	187,132
Loss on disposal of fixed assets	16,799	—
Loss on sale of investments	—	3,140
Elimination of prior year surplus on consolidation which arose from the excess of par value over cost of parent company shares held as an investment by the subsidiary. Such shares sold during 1965	198,295	—
	2,218,268	1,851,681
Less: Cost of mining properties written off by charge to retained earnings in prior years: now restored to retained earnings by transfer of charge to contributed surplus	\$3,973,700	—
Adjustment of prior years' depreciation (Note 3)	38,733	—
Gain on sale of investments	28,024	—
Retained earnings (deficit) December 31	<u>\$1,822,189</u>	<u>(\$1,851,681)</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1965

Surplus arising from reduction in the par value of capital stock (Note 4)	\$3,982,500
Less loss on investment in mining properties charged to retained earnings in prior years: charge now transferred to contributed surplus	3,973,700
Contributed surplus December 31	<u>\$ 8,800</u>

THE CONIAGAS MINES, LIMITED

and its wholly-owned subsidiary

THE CONIAGAS REDUCTION COMPANY LIMITED

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1965

		1964 Comparative Figures
Metal Revenue		
Production at estimated net realizable value less marketing expenses	\$1,559,310	\$1,515,479
Miscellaneous mine revenue	18,088	25,237
	<u>1,577,398</u>	<u>1,540,716</u>
Operating Costs		
Mining	\$ 852,801	811,162
Crushing	92,493	114,123
Milling	299,749	294,056
Supervision and general	329,100	309,991
	<u>1,574,143</u>	<u>1,529,332</u>
Net mine operating revenue	3,255	11,384
Mine duties, corporation taxes, mining fees and rentals (net credit)	3,989	(326)
	(734)	11,710
Interest and dividends on investments	10,261	20,675
	9,527	32,385
Administration and financial expenses	28,569	25,949
Prospecting expenses	42,466	23,509
	<u>71,035</u>	<u>49,458</u>
Net operating loss before depreciation	61,508	17,073
Depreciation (Note 3)		
Buildings	32,569	60,769
Machinery and equipment	57,416	109,290
	<u>89,985</u>	<u>170,059</u>
Net loss for the year	<u>\$ 151,493</u>	<u>\$ 187,132</u>

THE CONIAGAS MINES, LIMITED
and its wholly-owned subsidiary
THE CONIAGAS REDUCTION COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1965

1. Mining properties in the Township of Lesueur are recorded at a written down value of \$387,435. Other mining properties in good standing are valued at a nominal amount of \$1.00 each.
2. No provision has been made for amortization of preproduction and deferred development expenditures.
3. During the year the company changed its policy of providing for depreciation of fixed assets. As a result, the provision for depreciation is \$77,850 less than the amount calculated under the former policy. The 1964 provision has also been adjusted to accord with the new policy, and the resulting reduction of recorded costs for that year, together with a further adjustment of previous charges, are reflected as a credit to retained earnings in 1965.
4. By supplementary letters patent dated July 2, 1965 the par value per share of the authorized capital of 3,000,000 shares was reduced from \$2.50 to \$1.00 per share; the surplus of \$3,982,500 arising therefrom was transferred to "Contributed Surplus". By the same supplementary letters patent the shares were then changed to no par value.

THE CONIAGAS MINES, LIMITED

To the Board of Directors,
The Coniagas Mines, Limited,
Suite 903, 330 Bay Street,
Toronto, Ontario.

REPORT ON OPERATIONS OF THE BACHELOR LAKE PROPERTY, PROVINCE OF QUEBEC, FOR THE YEAR 1965

During the year efforts were concentrated on achieving the greatest possible production from our new ore-bodies. Many difficulties and bottlenecks were encountered and overcome in changing from what was essentially a salvage operation to production on a more permanent basis at increasingly large tonnages. Whilst many problems remain, these are largely of a mechanical nature and are slowly being solved, however the very high cost of electrical power generated by a large number of small diesel units will continue to be a very heavy burden until Quebec hydro power is made available.

Severe shortages of skilled miners in the second and third quarters of the year resulted in serious production losses. Consequent higher wage rates and the use of sub-contractors substantially increased labour costs but have resulted in a more satisfactory work force.

Under present conditions our operation is marginal, however, so long as exploration continues the chances of finding more profitable orebodies are excellent.

Reserves of broken and proven ore were improved substantially during the year.

MINE

Underground development and exploration continued at a reduced pace throughout the year. Work was concentrated on developing and bringing the north-east zone into production.

Stopes are relatively small and very irregular, requiring a disproportionate amount of development. Significant production was derived from flat-lying orebodies requiring scraping.

The following is a summary of the statistical details of development and production:

		1965	1964	To Date
Stations	— Tons	—	485	4,939
Drifting	— Feet	3,990	6,045	17,006
Raising	— Feet	2,432	3,757	10,723
Slashing	— Tons	4,544	6,050	19,988
Ore Broken	— Tons	141,955	87,429	564,764
Ore Pulled	— Tons	123,059	114,459	536,974
Ore Remaining	— Tons	27,790	8,894	27,790
Waste Hoisted	— Tons	3,607	17,379	40,889

GEOLOGY

Surface Exploration

The induced polarization survey started in 1964 was continued in 1965 over an additional 68 line miles. Several strong new anomalies in promising geological environments were located. Diamond drilling totalled 4,586 feet. Heavy sulphides with encouraging zinc mineralization were intersected in a strong anomaly about two miles along strike to the north-east of the mine area.

Further surface exploration is well warranted in this area and in the shear zone to the north-west of the mine.

